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## Mexico

### Market Development Reports

## Mexico's Caribbean Market for Food 2005

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**Report Highlights:**

Mexico's Caribbean coast provides very good opportunities for US suppliers of food to the hotel and restaurant sector. This region accounts for fifty-four percent of all tourists to Mexico. Food expenditures by tourists in this market were \$1.4 billion in 2004 and the majority of these tourists were from the United States and showed a preference for US products.

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## SECTION I. MARKET SUMMARY

Mexico, with its large and growing population, stable economy, liberalized import policy and ideal geographic location provides excellent potential for exports of US food and agricultural products. The total value of US exports of food and agricultural products to Mexico grew over 30 percent from \$6.9 billion in 2000 to \$9 billion in 2004. The United States has a 75 percent import market share in agricultural products, followed by Canada with 6 percent. Sales of consumer-ready products account for 38 percent of these imports, and grew rapidly from \$2.6 billion in 2000 to \$3.4 billion in 2004.

Currently, the Mexican tourism industry is ranked eight in the world with respect to the volume of visitors, and sixteenth with respect to tourism-generated income. Tourism contributes six to seven percent of GDP and represents six percent of total employment. Mexico is one of the world's principal tourist destinations, with 20.6 million international visitors in 2004. Eighty-nine percent of tourists came from the United States, four percent from Europe, three percent from Canada, and the balance from other countries.

The Southeast region of Mexico constitutes the most important region for tourism in Mexico. It includes the states of Quintana Roo, Yucatán, Oaxaca and Tabasco with their largest cities: Cancun, Merida, Oaxaca, and Villahermosa, respectively.

Quintana Roo attracted 11.2 million tourists in 2004 (54 percent of all Mexico's tourists) representing an increase of 15 percent from 2003. These visitors generated \$4.3 billion in revenue, which is 40 percent of the \$10.8 billion in tourism generated foreign currency earned nationally. About 30 to 35 percent of this income is spent on food and beverages making it a market of over \$1.4 billion with good potential for suppliers to the food service industry.

Quintana Roo is divided into three zones (Caribe Norte, Zona Maya and Zona Sur), formed by seven municipalities (Solidaridad, Benito Juárez, Cozumel, Isla Mujeres, Lázaro Cárdenas, Felipe Carrillo Puerto and Othon Pompeyo Blanco).

Caribe Norte:	Beginning in Holbox and ends in Tulum, and includes Isla Mujeres, Cancun, Puerto Morelos, Playa del Carmen, Puerto Aventuras, Xcaret, Tulum and Cozumel.
Costa Maya:	Ranges from Carrillo Puerto to Chetumal on the coast side and includes smaller towns such as Bacalar.
Zona Sur:	Ranges from Chetumal (which is the state capital city) to the southern border.

This entire region is known internationally as Caribe Mexicano (Mexican Caribbean). Tourism began in the Caribe Mexicano 33 years ago, although its major growth has taken place in the last 15 years. Cancun is its best-known tourist destination and is

formed by 28 kilometers of beach, followed by the Riviera Maya, Cozumel, Isla Mujeres and Chetumal. The Riviera Maya has 120 kilometers of white beaches and beautiful resorts and has experienced the strongest growth in the last five years.

Cancun's OVC-Oficina de Visitantes y Convenciones (visitors and conventions office) will invest \$1.8 million to promote tourism in the Caribe Mexicano in 2005. It will devote \$1 million (over 100 percent increase from the \$400,000 spent in 2004) to position the Caribe Mexicano in the world map of convention destinations by participating at international tourism fairs and promotional tours around the world. It will also spend \$800,000 to promote domestic tourism.

Table 1. Caribe Mexicano Statistics 2002/2004

	2002	2003	2004	2003/2004 Percent Increase
Tourists and Visitors	8.7 million	9.5 million	11.2 million	15
- Overnight Tourists	5.3 million	5.8 million	6.8 million	16
- Cruise Lines Tourists	2.9 million	3.3 million	3.6 million	10
- Border Visitors	492 thousand	435 thousand	538 thousand	24
Tourism Generated Income (% of Mexico's total)	\$3.5 billion 31.7 %	\$3.8 billion 37 %	\$4.3 billion 40 %	14
Hotels	655	723	755	4.5
- Rooms	54,948	57,368	57,906	1
- Average Occupancy Rate	60.5 %	69.3 %	78 %	12
Cruise Lines	1,500 ships	1,645 ships	1,612 ships	- 2
- Passengers	2.9 million	3.3 million	3.6 million	9

Source: Quintana Roo State Government, Tourist Secretariat info.

#### Cancun:

Cancun receives over three million tourists annually, representing 60 percent of the tourists visiting the region. It has 46 percent of the 57,906 hotel rooms and 19 percent of the 755 hotels available in the Caribe Mexicano. It is estimated that the number of rooms will continue to grow at an average of 1,000 rooms per year.

#### Riviera Maya:

The Riviera Maya receives over two million tourists annually. It has grown dramatically in the past five years and still has the largest growth potential in coming years. To date it has 48 percent of the hotels and 39 percent of the rooms available in the Caribe Mexicano. It is estimated that the number of rooms will continue to grow at an average of 2,000 rooms per year in the Riviera Maya. It includes cities such as Puerto Morelos, Playa del Carmen, Xcaret, Puerto Aventuras, Xel-Ha and Tulum.

## Cozumel:

This island receives around 365,000 overnight tourists and is a mini hub port for cruise trips around the Caribbean Region. It is also known worldwide for its scuba diving resorts.

## Isla Mujeres:

This island is small but growing in terms of permanent housing and day visitors. There are a few projects to build private condominiums in the future specifically in Isla Blanca or Playa Mujeres.

## Chetumal:

The Capital City of Quintana Roo is located in the south and is part of the new project called Costa Maya. Fonatur (Mexico's government tourism agency) is planning to make large investments in this area in various ecotourism projects, as well as in the enhancement of the Puerto Costa Maya, which was inaugurated in 2001 and is rapidly gaining importance as an international cruise port.

Table 2. Caribe Mexicano Tourist Income Statistics 2003/2004e

	International Visitors (thousands)			Tourism generated Income (million \$)			Average Expenditure Per Capita
	2003	2004e	Percentage	2003	2004e	Percentage	
Cancun	3,037	3,340	10	\$2,037	\$1,997	- 2	\$664
Riviera Maya	2,021	2,445	21	\$1,292	\$1,550	20	\$630
Cozumel	3,072*	3,471	13	\$417	\$459	10	\$538
Isla Mujeres	146**	204	40	\$39	\$55	40	\$266
Chetumal	227	312	37	\$18	\$24	35	\$80

Source: Quintana Roo State Government, Tourism Secretariat info

e: 2004 Estimates were made based on Jan-Sep data

\*Includes 365,000 overnight tourists and 2.7 million cruise visitors that do not stay overnight but do spend the day touring around, eating and shopping.

\*\*Only includes tourist that stayed overnight however, a large numbers of visitors spend the day eating and touring in the Island.

Table 3. Advantages and Challenges for US Suppliers of Food and Beverages

Advantages	Challenges
The IVA (or Value Added Tax-VAT) in Cancun is 10 percent, compared to 15 percent in most of Mexico.	All-inclusive hotels have limited growth potential of independent restaurants.
The products are sold at higher prices than in the rest of the country providing a good venue for high value foods.	Transportation costs are higher than those for domestic products.
Production of food products is scarce so most products are imported.	Although the general infrastructure at the main port has improved drastically there is still only one shipping company operating creating a monopoly and increasing costs.
The Mayan Riviera continues to grow rapidly, increasing the demand for imported goods.	There are still only few specialized customs agents and distributors with adequate infrastructure, particularly cold storage.
There are three international airports in the area and Cancun's airport is the second largest in the country.	Competition from South American and European countries is growing especially for certain high-value products such as wine, meats, cheese and seafood.
Over 55 percent of all tourists and 77 of international tourist come from US therefore creating strong demand for familiar US products.	The Mexican food industry is strong and the main supplier to the HRI sector. Several multinational firms (Del Monte, General Mills, Kraft Foods, Campbell's, Nestle, Unilever, etc.) manufacture in Mexico.
Major club stores and retailers such as Costco, Sams and Wal-Mart have a growing presence in the region with a larger supply of US goods.	The rapid involvement of club stores in the food service sector is taking market share from traditional HRI importers and distributors.

## SECTION II. ROAD MAP FOR MARKET ENTRY

### A. Entry Strategy

Importers/distributors are the most important players in the importation of food products in this region. Although they still dominate the market, handling around 80 percent by value of all products sold in the region, club stores such as Costco and Sam's have gained market share for both the retail and food service (HRI) sectors.

The recommended method of entering this market is to identify and select a knowledgeable local importer/distributor. There are many distributors in this area and most of them specialize in certain product groups such as meat, seafood, dairy, fruits and vegetables, wine and liquors, and grocery products. In addition, there are a few large importers/distributors (5 to 6) that have 60 percent market share and each handle a wider range of products. A smaller distributor may be a better option for smaller US exporters, but exporters must decide upon and select a distributor

that best meets their needs. The importer/distributor will import, store, promote, and sell your products to the HRI sector. There is a central market in Cancun where a wide variety of food products are sold and where most major importers/distributors are located. These importers deliver directly to their buyers.

The retail sector has been growing rapidly in Cancun and is slowly growing in the Riviera Maya. Most major Mexico retail chains have stores in the region including, Gigante, Comercial Mexicana, Soriana, Wal-Mart and Chedraui have stores there. The retail sector is primarily focused on the supply of food and beverages (among other products) to the general population. However, Costco and Sams have rapidly gained market share in HRI sales. Importers/distributors have direct and constant contact with the client giving them an advantage over warehouse stores. Personal attention is considered valuable in the food service sector, so this may protect the importers/distributors from further losses to club store distribution.

Once a business relationship between a US exporter and a local importer/distributor is established, it is essential to develop and maintain that relationship. This will help the US exporter to become familiar with the market needs, local competition, prices and trends, and will keep it informed of changes concerning import requirements and procedures.

The best way to understand the market is:

- Visit the marketplace, talk to buyers, retailers, distributors and other players.
- Do basic market research in order to better understand the market and its opportunities and be prepared to face local competition.
- Learn the import process.
- Prepare a consistent entry strategy, be prepared to support your new importer/distributor in its marketing objectives over the long term.

Exporters can begin to investigate and better understand the market by participating at the major HRI trade show EXPHOTEL that takes place in Cancun every June. The Agricultural Trade Office (ATO) of the US Embassy organizes a US Pavilion in this annual show and can provide information on the market, trade contacts and assist US exporters in their marketing efforts throughout Mexico, including the Cancun region. Please contact the ATO office in Mexico City for more information.

## B. Market Size, Structure, Trends

With 40 percent of the total tourism income of the country (of which at least \$1.4 billion is spent on food and beverages), and 55 percent of all domestic and international visitors coming from the United States, the Caribe Mexicano represents good opportunities for US exporters.

Before the devaluation of 1994, at least 60 percent of the food and beverages sold in Cancun were imported with 40 to 50 percent of all food products coming from the United States. After the crisis, import prices increased significantly and for a long time imports of food and beverage products were drastically reduced. This situation has improved in the past 10 years, with imports increasing again to about 40

percent of sales. About 20 percent of all food products come from the United States. Although this trend is likely to continue, there is increasing competition from domestic products as well as from South American and European countries.

### C. Sub-Sector Profiles and Trends

#### 1. Hotels

Currently, there are 755 hotels in the Caribe Mexicano and about 180 or 24 percent of those are Grand Tourism, five or four star hotels accounting for over 40 percent of the rooms available throughout Quintana Roo. The independent restaurants and those in luxury hotels (not all inclusive) are still the main clients for high-quality food and beverages.

Ten years ago the all-inclusive concept arrived in Cancun. The all inclusive system has been growing rapidly especially in the Riviera Maya where 51 hotels (14 percent of the total) are all inclusive resorts representing 75 percent of the total rooms available in this region (17,000 rooms). In Cancun 27 hotels (19 percent of the total) offer all inclusive services and during 2004 around 3 million visitors stayed visitors stayed at all inclusive resorts, three times more than in 2000.

All-inclusive hotels traditionally have spent an average of \$5 to \$6 per guest per day for food. These hotels are slightly increasing their budgets for food and are now spending around \$7 per day. In the last five years the trend has begun to change slightly with the construction of a few more upscale all inclusive hotels especially in Cancun and the Riviera Maya. These hotels offer higher quality food and beverages to their guests increasing the average food costs to about \$12 per person and providing more opportunities for US exporters.

#### 2. Restaurants

Restaurants are an important sector for exporters to tourist locations as 30 percent of vacation expenses are for food. The restaurant sector is composed of a wide variety of establishments in this region with 900 independent restaurants registered with the CANIRAC (National Food and Beverage Association in Quintana Roo). About 400 of these restaurants are targeted to tourists and 90 percent of them are in Cancun. Also, there are some 360 additional tourist class restaurants located within hotels.

The high-end independent restaurants are located in Cancun. The main customers for US suppliers of high quality food and beverages are a subset of 40 of these establishments. They include the well-known restaurant chains: Ruth's Chris, Outback, Pat O'Briens, Hard Rock Café, Italianis, Tony Roma's, Planet Hollywood, Rainforest Café, and the TGI Friday. In addition food chains such as Mc Donalds, Domino's Pizza, Papa Johns Pizza, Subway, and Kentucky Fried Chicken have grown over 50 percent in recent years and are slowly expanding to other cities.

The average per person consumption in restaurants is estimated to be \$20, but depending on the type of restaurant this varies from \$5 to \$75. According to CANIRAC, the number of tourist restaurants in Cancun has remained more or less steady throughout the year. A growth in the number of local restaurants has



increased slightly to serve the demand of a growing local population. According to food and beverage specialists and restaurant owners, the market for independent restaurants and high quality food has been hard hit by the all inclusive concept during the last years, and some estimate they have lost as much as fifty percent of their business to this trend.

Mexican food is the most popular cuisine in the market, followed by seafood, and red meat. New foods, such as Chinese and Thai, are becoming more popular in the area.

#### D. Upcoming Projects

The Caribe Mexicano will continue to grow rapidly in the coming years. Some of the expansion planned for the next 10 years includes three large tourist projects in Cancun with an estimated investment of \$2.4 billion:

- **Puerto Cancun** - adding 4,000 hotel rooms, a mall, a PGA quality golf court, residential areas, and a worldwide class marina for 350 boats with port services and yacht club;
- **Playa Mujeres Resort** - adding 7,000 – 10,000 hotel rooms, two golf courts and a marina for 215 boats; and
- **Costa Cancun** – adding 5,000 hotel rooms and two golf courts.

In southern Quintana Roo other development is planned such as the **Costa Maya Project** with 1,800 high quality hotel rooms and ecotourism development. The goal of the project and ecological attractions are to bring 250,000 visitors and \$125 million annually to this area by 2018.

In addition, other tourist facilities and infrastructure investments are planned for the coming years, such as a Formula one race track, airport enlargement and a new convention center.

### SECTION III. COMPETITION

#### A. Domestic

The Mexican food industry is the main supplier to the HRI sector and represents strong competition for US products. Many multinational firms such as Del Monte, General Mills, Kraft Foods, Campbell's, Danone, Nestle, Unilever, Coca-Cola, and Bacardi sell their products in this region. However, there is very little local production of food and beverages so most food and beverages must be brought into the state by truck, ship or airplane.

US exporters are considered to be suppliers of high quality products and are leaders in many imported product categories, such as red meat, certain poultry and dairy products, seafood, rice, wines and other processed food products and ingredients. The principal advantages for domestic products are established distribution channels, brand recognition, price and market presence. The advantages that imported products have over domestic products are the high quality, product



innovation and high status with consumers. There is not a "buy-national" attitude negatively affecting foreign products, which, in general, enjoy good acceptance among consumers. In addition, over 77 percent of the international tourists in the area come from the United States and many prefer familiar US products and brands.

## B. Foreign

The United States also faces competition from South American and European products that are also perceived by buyers as high-quality. Fortunately, shipping costs from the United States, especially through Miami, FL are still much lower than for the competitors. Some of the European products found in the food service sector are alcoholic beverages, cheese, pastries, jams, baking products, and frozen desserts. Chile is the strongest competitor of the United States in both seafood and wine. New Zealand has become a strong competitor in certain meat products such as lamb.

## C. Pricing Structure and Costs

In this market importers expect 30 to 60 days credit for most of their purchases. The price mark-up varies between 15 and 30 percent of the FOB price depending on the product. Refrigerated products mark-up tends to be higher than mark-ups on shelf-stable products. Importers/distributors note in this region that operational costs are particularly expensive for refrigerated products since appropriate infrastructure is still limited.

## D. Infrastructure

Despite continuing infrastructure limitations, importing facilities have improved dramatically in the past few years. For example, Cancun's cargo port Puerto Morelos, has grown and is better equipped to handle both shelf stable and refrigerated food and beverages for the region. In addition, many more customs agents have established operations to handle international imports.

Seventy percent of imported food and beverage products sold in Cancun arrive to the country by sea. More than half of the product arriving by ship enters at Puerto Morelos, with the rest entering at Puerto Progreso in Yucatan, the Port of Manzanillo in Colima and the Port of Veracruz. From the ports the cargo is carried by truck to Cancun. Twenty-five percent of these goods arrive to Cancun by truck through Laredo, Texas, and the remaining five percent, generally high value perishables such as meat and seafood, arrive by plane.

## SECTION IV. BEST PRODUCT PROSPECTS

According to industry specialists, the products that have the best potential in this market include:

- red meat
- sausages
- poultry
- seafood, particularly fish, shrimp and lobster
- dairy products, particularly ice creams and cheese
- fruit juices
- beer
- wine
- frozen and dehydrated potatoes
- pastas
- flour preparations
- condiments and spices

## SECTION V. POST CONTACT AND INFORMATION

The primary mission of the US Agricultural Trade Office (ATO) in Mexico City is to assist in the market development and promotion of US food and agricultural products in the Mexican market. There are a wide variety of activities and services that the ATO, along with other private sector representatives called "cooperators," make available to develop the market for US agricultural products in Mexico. US companies interested in exporting their products to Mexico should contact the ATO for information on market opportunities and constraints for their products.

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